

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ALCONA COMMUNITY SCHOOLS	County ALCONA
Audit Date 06/30/2004	Opinion Date 08/19/2004	Date Accountant Report Submitted to State: 11/09/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

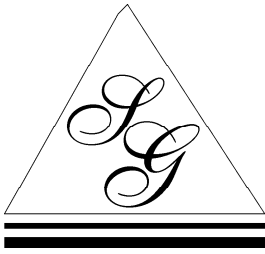
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		<small>Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document</small>	



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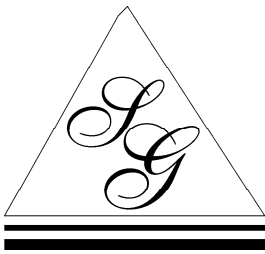
Herman A Bertuleit, CPA

ALCONA COMMUNITY SCHOOLS
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

AUDITORS' REPORT

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August 19, 2004

Independent Auditors' Report

Board of Education
Alcona Community Schools
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004, on our consideration of Alcona Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic financial Statements -and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and

Board of Education
Alcona Community Schools
August 19, 2004
Page Two

Non-Profit Organizations, and is also not a required part of the basic financial statements of Alcona Community Schools. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Grail & Co., P.C.

ALCONA COMMUNITY SCHOOLS

SHAWN THORNTON
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MANAGEMENT'S DISCUSSION AND ANALYSIS **For the Fiscal Year Ended June 30, 2004**

As management of the Alcona Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Athletic Fund, Food Service Fund, and Debt Service Funds. Comparative information will be provided in future years when prior year information is available.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities remains strong for the District.

Our financial statements provide these insights into the results of this year's operations. The overall condition of the funds and governmental activities is very sound for the District in 2003-2004. All goals of the District's financial obligations have been met. Local tax revenues remain strong and account for 51% of total revenues. State and federal revenues are less stable and have been flat or reducing for the past years. Coupled with a very sluggish economy and increasing cost of insurance, retirement, wages and benefits the fund equity of the district will be strained in upcoming years.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,767,038 (net assets). Of this amount, \$321,656 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$648,362. This represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending funds balances of \$2,010,602, an increase of \$336,508 in comparison with the prior year. Of this amount, \$1,627,088 is available for spending at the District's discretion (unreserved fund balance). This represents 18% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Alcona Community Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Alcona Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, athletic service, and food service. The District does not currently have any business-type activities.

The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The District does not currently have any proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund and 1999 bond debt retirement fund which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* presented in Exhibits J and K of this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund and combined special revenue funds to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in Exhibits C and E of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

The basic fiduciary fund financial statement can be found on Exhibit G of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in Exhibit H of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in Exhibits I of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in Exhibits J and K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The District's net assets were \$4,767,038 at June 30, 2004. Of this amount, \$321,656 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

TABLE 1
NET ASSETS
JUNE 30
(IN THOUSANDS)

	<u>Governmental Activities</u>
Current Assets	\$ 2,592,063
Noncurrent Assets	<u>10,402,556</u>
Total Assets	<u>12,994,619</u>
Current Liabilities	581,461
Noncurrent Liabilities	<u>7,646,120</u>
Total Liabilities	<u>8,227,581</u>
<u>Net Assets</u>	
Invested in Capital Assets – Net of Debt	4,061,868
Restricted	383,514
Unrestricted	<u>321,656</u>
Total Net Assets	<u>\$ 4,767,038</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

The \$321,656 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$321,656 left.

A comparison of prior year net assets and change in net assets will not be available this year with the change to GASB 34 governmental wide accounting format. The District's net assets were \$4,767,038 at June 30, 2004. Capital assets, net of debt totaled \$4,061,868. The debt of the District will be paid for by voter approved bond and property tax collected as the debt service comes due. Day-to-day operations will be paid for by property tax, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$321,656 is unrestricted.

TABLE 2
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30
(IN MILLIONS)

	<u>Governmental Activities</u>
Revenues:	
Program Revenues:	
Charges for Services	\$ 340,070
Operating Grants and Contributions	4,030,495
General Revenues:	
Current Property Taxes	4,756,125
Investment Earnings	20,524
Miscellaneous	<u>92,848</u>
Total Revenues	9,240,062
Functions/Program Expenses:	
Instruction	4,726,322
Supporting Services	2,561,271
Food Services	451,157
Athletics	136,613
Interest on Long-Term Debt	358,435
Unallocated Depreciation	<u>357,902</u>
Total Functions/Program Expenses	<u>8,591,700</u>
Increase in Net Assets	<u>\$ 648,362</u>

Governmental activities increased the District's net assets by \$648,362.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was \$8,591,700. However, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$4,756,125 because some of the cost was paid by those who benefited from the programs (\$340,070), by other governments and organizations who subsidized certain programs with grants and contributions (\$4,030,495), and by miscellaneous sources (\$113,372).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2004, the District amended the budgets of this major governmental fund a couple of times, none significantly.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

General Fund

The general fund actual revenue was \$8,072,184 . That amount is above the original budget estimates of \$7,604,905 and the final amended budget of \$8,061,897 . The variance between the actual revenues, the original budget, and the final budget was the result of increased revenues from various sources .

The actual expenditures of the general fund were \$7,593,759 , which is above the original budget estimates of \$7,471,830 and below the final amended budget of \$7,747,532 . The variance between the actual expenditures, the original budget, and final budget was due to increased costs of insurance, retirement, and other expenses.

The General Fund had total revenues of \$8,072,184 and total expenditures of \$7,593,759 with an ending fund balance of \$1,655,580 .

TOTAL REVENUES

The total revenues of the District were \$9,240,062 . Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,370,565 or 47% of total revenues of \$9,240,062 .

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$8,903,554 . The governmental funds had a net gain in fund balance of \$336,508 . The ending fund balance for all governmental funds was \$2,010,602 which represents 23% of current year expenditures . The ending fund balance percentage for the prior year represented 18% of last year's expenditures. This fund balance will be used to cover unforeseen expenses and hedge for future state aid foundation reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the District had \$14,593,706 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$4,191,150 in depreciation has been taken over the years. We currently have net book value of \$10,402,556 . Total additions for the year were \$18,590 .

Long-Term Debt

At June 30, 2004, the District had \$6,680,000 in bonds outstanding.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note 7 starting on page 26 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2004-2005 funding is uncertain. These factors were considered in preparing Alcona Community School's budgets for the 2004-2005 fiscal year.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Alcona Community School's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alan Shillair
Business Manager
Alcona Community Schools
51 North Barlow Road
PO Box 249
Lincoln, MI 48742
Office Telephone (989) 736-6212

ALCONA COMMUNITY SCHOOLS

Alcona County, Michigan

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 1,857,601
Receivables:	
State of Michigan (Note 4)	553,562
Taxes	66,880
Other	50,932
Inventories (Note 1)	63,088
Capital assets - net (Note 5)	<u>10,402,556</u>
 Total Assets	 <u>12,994,619</u>
<u>Liabilities:</u>	
Accounts payable	52,188
Salaries payable	313,897
Employee benefits payable	172,728
Due to State of Michigan	23,761
Deferred revenue (Note 10)	18,887
Long-term liabilities:	
Due within one year (Note 7)	607,001
Due in more than one year	<u>7,039,119</u>
 Total Liabilities	 <u>8,227,581</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	4,061,868
Restricted for:	
Debt service	301,121
Inventories	63,088
Capital projects	19,305
Unrestricted	<u>321,656</u>
 Total Net Assets	 <u>\$ 4,767,038</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

		Program Revenues		Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities
Instruction	\$ 4,726,322	\$ 99,098	\$ 2,711,026	\$ (1,916,198)
Supporting services	2,561,271	18,218	1,059,560	(1,483,493)
Food services	451,157	195,043	229,909	(26,205)
Athletics	136,613	27,711	30,000	(78,902)
Interest on long-term debt	358,435	0	0	(358,435)
Unallocated depreciation	<u>357,902</u>	<u>0</u>	<u>0</u>	<u>(357,902)</u>
Total	<u>\$ 8,591,700</u>	<u>\$ 340,070</u>	<u>\$ 4,030,495</u>	<u>(4,221,135)</u>
General purpose revenue:				
Current property taxes				4,756,125
Investment earnings				20,524
Miscellaneous				<u>92,848</u>
Total general purpose revenue				<u>4,869,497</u>
Change in net assets				648,362
Net assets - beginning				<u>4,118,676</u>
Net assets - ending				<u>\$ 4,767,038</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>1999 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 3)	\$ 1,508,898	\$ 293,228	\$ 55,475	\$ 1,857,601
Receivables:				
State of Michigan (Note 4)	550,416	0	3,146	553,562
Taxes	59,953	6,927	0	66,880
Other	50,932	0	0	50,932
Due from other funds (Note 9)	1,135	1,040	0	2,175
Inventories (Note 1)	<u>60,404</u>	<u>0</u>	<u>2,684</u>	<u>63,088</u>
Total Assets	<u>\$ 2,231,738</u>	<u>\$ 301,195</u>	<u>\$ 61,305</u>	<u>\$ 2,594,238</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 52,188	\$ 0	\$ 0	\$ 52,188
Salaries payable	313,897	0	0	313,897
Employee benefits payable	172,728	0	0	172,728
Due to other funds (Note 9)	0	74	2,101	2,175
Due to State of Michigan	18,458	0	5,303	23,761
Deferred revenue (Note 10)	<u>18,887</u>	<u>0</u>	<u>0</u>	<u>18,887</u>
Total liabilities	<u>576,158</u>	<u>74</u>	<u>7,404</u>	<u>583,636</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Debt service	0	301,121	0	301,121
Inventories	60,404	0	2,684	63,088
Capital projects	0	0	19,305	19,305
Unreserved, reported in:				
General fund	1,595,176	0	0	1,595,176
Special revenue funds	<u>0</u>	<u>0</u>	<u>31,912</u>	<u>31,912</u>
Total fund equity	<u>1,655,580</u>	<u>301,121</u>	<u>53,901</u>	<u>2,010,602</u>
Total Liabilities and Fund Equity	<u>\$ 2,231,738</u>	<u>\$ 301,195</u>	<u>\$ 61,305</u>	<u>\$ 2,594,238</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004

Total governmental fund balances: \$ 2,010,602

Amounts reported for governmental activities in the statement of
 net assets are different because:

Capital assets used in governmental activities are not financial resources
 and, therefore, are not reported as assets in governmental funds. Capital
 assets at year end consist of:

Capital asset cost	\$ 14,593,706	
Capital asset accumulated depreciation	<u>(4,191,150)</u>	
		10,402,556

Long-term liabilities, including bonds payable, are not due and payable
 in the current period and, therefore, are not reported as liabilities in
 the governmental funds. Long-term liabilities at year end consist of:

Bonds payable	(6,680,000)	
Compensated absences payable	(327,197)	
Retirement incentive payable	<u>(638,923)</u>	
Total long-term liabilities		<u>(7,646,120)</u>

Total net assets - governmental activities \$ 4,767,038

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	<u>General</u>	<u>1999 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources:				
Current property taxes	\$ 4,093,079	\$ 670,906	\$ 0	\$ 4,763,985
Lunch sales	0	0	195,043	195,043
Gate receipts	0	0	27,711	27,711
Medicaid fee for service	47,933	0	0	47,933
Interest on investments	8,355	3,320	989	12,664
Other	98,729	0	40,000	138,729
State sources	3,058,090	0	21,466	3,079,556
Federal sources	558,845	0	208,443	767,288
Interdistrict sources	<u>207,153</u>	<u>0</u>	<u>0</u>	<u>207,153</u>
Total revenue	<u>8,072,184</u>	<u>674,226</u>	<u>493,652</u>	<u>9,240,062</u>
<u>Expenditures</u>				
Current:				
Instruction	5,038,966	0	0	5,038,966
Supporting services	2,554,793	0	0	2,554,793
Food services	0	0	451,157	451,157
Athletics	0	0	136,613	136,613
Debt Service:				
Principal	0	280,000	65,000	345,000
Interest and fees	0	340,636	17,799	358,435
Capital outlay	<u>0</u>	<u>0</u>	<u>18,590</u>	<u>18,590</u>
Total expenditures	<u>7,593,759</u>	<u>620,636</u>	<u>689,159</u>	<u>8,903,554</u>
Excess of revenue over (under) expenditures	<u>478,425</u>	<u>53,590</u>	<u>(195,507)</u>	<u>336,508</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	0	161,701	161,701
Operating transfers out	<u>(161,701)</u>	<u>0</u>	<u>0</u>	<u>(161,701)</u>
Total other financing sources (uses)	<u>(161,701)</u>	<u>0</u>	<u>161,701</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	316,724	53,590	(33,806)	336,508
Fund balances - beginning of year, as restated (Note 2)	<u>1,338,856</u>	<u>247,531</u>	<u>87,707</u>	<u>1,674,094</u>
Fund balances - end of year	<u>\$ 1,655,580</u>	<u>\$ 301,121</u>	<u>\$ 53,901</u>	<u>\$ 2,010,602</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds		\$ 336,508
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation expense	\$ (357,902)	
Capital outlays reported in the governmental funds	<u>18,590</u>	
Net difference		(339,312)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.		
		345,000
Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2003	337,614	
Accrued compensated absences June 30, 2004	<u>(327,197)</u>	
		10,417
Net change in retirement incentive payable:		
Retirement incentive payable June 30, 2003	934,672	
Retirement incentive payable June 30, 2004	<u>(638,923)</u>	
		<u>295,749</u>
Change in net assets of governmental activities		<u>\$ 648,362</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2004

	<u>2004</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 104,358</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 104,358</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Alcona Community Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Alcona Community Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Alcona Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for all financial resources, except those required to be accounted for in another fund.

1999 Bond Fund – The 1999 Bond Fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; and the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2004, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements are stated at cost and are expensed when used.

Inventory on fund financial statements are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

J. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the District's termination policy.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. The amount of accumulated sick and vacation pay liability for Alcona Community Schools was \$327,197, of which none is current.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

N. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2003 - August, 2004. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2004.

R. Economic Dependency

The School District received approximately 41% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

S. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

T. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Policies and Data (Continued)

Alcona Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles

For 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the School District's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2004, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (CONTINUED)

Restatement of Fund Balance

The General Fund restatement for these changes in accounting principles is presented below:

Fund balance as originally stated at June 30, 2003	\$ 1,289,539
Reverse accrual of June 30, 2003 retirement incentives paid through August 31, 2004	<u>49,317</u>
Fund balance as restated at June 30, 2003	<u>\$ 1,338,856</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	<u>\$ 1,857,601</u>	<u>\$ 104,358</u>	<u>\$ 1,961,959</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 858,025
Investments in Securities and Similar Vehicles	<u>1,103,934</u>
Total	<u>\$ 1,961,959</u>

Deposits:

Deposits are carried at cost. Deposits of the School District are held at various banks in the name of the School District. At June 30, 2004, the carrying amounts of the School District's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 133,669	\$ 133,386
Uninsured – uncollateralized	<u>724,356</u>	<u>876,855</u>
Total primary government	<u>\$ 858,025</u>	<u>\$ 1,010,241</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The School District is authorized through Board resolution and by the State of Michigan Public Act 451 of 1976 as amended to invest in the following:

Bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above, and investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the School District's investments consisted entirely of municipal investment pools, which are not required to be categorized with a carrying amount and market value of \$1,103,934.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from State of Michigan) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	\$ 550,416
Federal Grants	<u>3,146</u>
Total Governmental Activities	<u>\$ 553,562</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>Governmental Activities</u>				
Land	\$ 144,185	\$ 0	\$ 0	\$ 144,185
Buildings and additions	12,822,623	0	0	12,822,623
Site improvements	519,455	0	0	519,455
Equipment and furniture	185,199	0	0	185,199
School buses	903,654	0	0	903,654
Construction in progress	0	18,590	0	18,590
Total at historical cost	<u>14,575,116</u>	<u>18,590</u>	<u>0</u>	<u>14,593,706</u>
Less: Accumulated Depreciation				
Buildings and additions	(3,016,883)	(256,451)	0	(3,273,334)
Site improvements	(25,973)	(25,973)	0	(51,946)
Equipment and furniture	(72,186)	(19,158)	0	(91,344)
School buses	<u>(718,206)</u>	<u>(56,320)</u>	<u>0</u>	<u>(774,526)</u>
Total accumulated depreciation	<u>(3,833,248)</u>	<u>(357,902)</u>	<u>0</u>	<u>(4,191,150)</u>
Governmental Activities Capital Assets-Net	<u>\$ 10,741,868</u>	<u>\$ (339,312)</u>	<u>\$ 0</u>	<u>\$ 10,402,556</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2004.

NOTE 7 - LONG-TERM LIABILITIES

A. <u>Bonds Payable</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Note</u>	<u>Total Obligation</u>
Energy Conservation Improvement Bonds:				
The bonds dated June 1, 1998 which bear interest at 4.85% to 6.05% are due serially each May 1 through 2008	1998	\$ 295,000	\$ 36,754	\$ 331,754
1999 School Building and Site Bonds:				
The bonds dated August 1, 1999 which bear interest at 4.8% are due serially each May 1 through 2016	1999	<u>6,385,000</u>	<u>2,430,888</u>	<u>8,815,888</u>
		<u>\$ 6,680,000</u>	<u>\$ 2,467,642</u>	<u>\$ 9,147,642</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)A. Bonds Payable (Continued)

The annual principal and interest requirements for long-term debt for the years after June 30, 2004 are as follows:

	Government Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 370,000	\$ 340,679	\$ 710,679
2006	410,000	321,984	731,984
2007	455,000	301,249	756,249
2008	500,000	278,212	778,212
2009	465,000	252,893	717,893
2010-2014	3,015,000	859,106	3,874,106
2015-2019	<u>1,465,000</u>	<u>113,519</u>	<u>1,578,519</u>
Total	<u>\$ 6,680,000</u>	<u>\$ 2,467,642</u>	<u>\$ 9,147,642</u>

B. Early Retirement Incentive

The School District offers an early retirement incentive to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for Alcona Community Schools at June 30, 2004 was \$638,923 of which \$237,001 was the estimated current portion.

C. Compensated Absences

The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Teachers may accumulate up to 180 days of sick leave of which 25% is payable upon retirement. Other employees are covered by similar agreements.

Compensated absences are recorded using the vesting method in accordance with Governmental Accounting Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for Alcona Community Schools was \$327,197 at June 30, 2004, of which \$0 was the estimated current portion.

ALCONA COMMUNITY SCHOOLS
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)D. Changes in Long-Term Liabilities

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amount Due In One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 7,025,000	\$ 0	\$ 345,000	\$ 6,680,000	\$ 370,000
Early Retirement Incentive	934,672	0	295,749	638,923	237,001
Compensated absences	<u>337,614</u>	<u>0</u>	<u>10,417*</u>	<u>327,197</u>	<u>0</u>
Total long-term liabilities	<u>\$ 8,297,286</u>	<u>\$ 0</u>	<u>\$ 651,166</u>	<u>\$ 7,646,120</u>	<u>\$ 607,001</u>

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$358,111.

*Represents net of additions and retirements for the year.

NOTE 8 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Athletic Fund	\$ 78,902	General Fund	\$ 78,902
1998 Energy Bond Fund	<u>82,799</u>	General Fund	<u>82,799</u>
Total	<u>\$ 161,701</u>	Total	<u>\$ 161,701</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for individual funds as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 74	1999 Bond Fund	\$ 74
General Fund	1,061	Food Service Fund	1,061
1999 Bond Fund	<u>1,040</u>	1999 Capital Project Fund	<u>1,040</u>
Total	<u>\$ 2,175</u>	Total	<u>\$ 2,175</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 10 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Medicaid-Special Education	\$ 3,739
Microsociety Grant	15,137
Other	<u>11</u>
Total	<u>\$ 18,887</u>

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue Funds:			
Food services	\$ 441,725	\$ 451,157	\$ 9,432

NOTE 12 - RETIREMENT PLANS

Defined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 12 - RETIREMENT PLANS (CONTINUED)

Funding Policy

Effective January 1, 1987, employees who were MPSERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2003, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. The contribution requirements of plan members and Alcona Community School District are established and may be amended by the MPSERS Board. The School District's contributions to MPSERS for the years ending June 30, 2004, 2003 and 2002 were \$576,321, \$560,330 and \$563,688, respectively, equal to the required contributions for each year.

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Alcona Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$56,133 for the year ended June 30, 2004.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$149,879 for the year ended June 30, 2004. The assets of the plan are administered and held by various approved third party financial institutions.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 13 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. The amount due as of June 30, 2004 was \$17,416 which is included in the accounts payable balance on Exhibit A.

NOTE 14 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

NOTE 15 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 16 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 17 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements, Exhibits L & M, in order to provide an understanding of changes in the School District's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources:				
Current property taxes	\$ 4,028,290	\$ 4,091,862	\$ 4,093,079	\$ 1,217
Medicaid fee for service	47,174	51,675	47,933	(3,742)
Interest on investments	8,223	8,300	8,355	55
Other	97,152	99,605	98,729	(876)
State sources	2,819,911	3,037,268	3,058,090	20,822
Federal sources	461,388	575,437	558,845	(16,592)
Interdistrict sources	142,767	197,750	207,153	9,403
Total revenue	<u>7,604,905</u>	<u>8,061,897</u>	<u>8,072,184</u>	<u>10,287</u>
<u>Expenditures</u>				
Current:				
Instruction	4,995,894	5,106,496	5,038,966	67,530
Supporting services	2,314,936	2,585,819	2,554,793	31,026
Capital outlay	161,000	55,217	0	55,217
Total expenditures	<u>7,471,830</u>	<u>7,747,532</u>	<u>7,593,759</u>	<u>153,773</u>
Excess of revenue over expenditures	133,075	314,365	478,425	164,060
<u>Other Financing Uses</u>				
Operating transfers out	<u>(133,075)</u>	<u>(162,000)</u>	<u>(161,701)</u>	<u>299</u>
Excess of revenue over expenditures and other uses	0	152,365	316,724	164,359
Fund balances - beginning of year, as restated	<u>1,338,856</u>	<u>1,338,856</u>	<u>1,338,856</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,338,856</u>	<u>\$ 1,491,221</u>	<u>\$ 1,655,580</u>	<u>\$ 164,359</u>

OTHER INFORMATION

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2004

	Food Service Fund	Athletic Fund	1998 Energy Bond	1999 Capital Project Fund	Total Other Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents	\$ 30,745	\$ 4,385	\$ 0	\$ 20,345	\$ 55,475
Receivables:					
State of Michigan	3,146	0	0	0	3,146
Inventories	<u>2,684</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,684</u>
Total Assets	<u>\$ 36,575</u>	<u>\$ 4,385</u>	<u>\$ 0</u>	<u>\$ 20,345</u>	<u>\$ 61,305</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Due to other funds	\$ 1,061	\$ 0	\$ 0	\$ 1,040	\$ 2,101
Deferred revenue	<u>918</u>	<u>4,385</u>	<u>0</u>	<u>0</u>	<u>5,303</u>
Total liabilities	<u>1,979</u>	<u>4,385</u>	<u>0</u>	<u>1,040</u>	<u>7,404</u>
<u>Fund Equity</u>					
Fund balances:					
Reserved:					
Inventories	2,684	0	0	0	2,684
Capital projects	0	0	0	19,305	19,305
Unreserved, reported in:					
Special revenue funds	<u>31,912</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>31,912</u>
Total fund equity	<u>34,596</u>	<u>0</u>	<u>0</u>	<u>19,305</u>	<u>53,901</u>
Total Liabilities and Fund Equity	<u>\$ 36,575</u>	<u>\$ 4,385</u>	<u>\$ 0</u>	<u>\$ 20,345</u>	<u>\$ 61,305</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Food Service Fund	Athletic Fund	1998 Energy Bond	1999 Capital Project Fund	Total Other Governmental Funds
<u>Revenue</u>					
Local Sources:					
Lunch sales	\$ 195,043	\$ 0	\$ 0	\$ 0	\$ 195,043
Gate receipts	0	27,711	0	0	27,711
Interest on investments	835	0	0	154	989
Other	0	30,000	0	10,000	40,000
State sources	21,466	0	0	0	21,466
Federal sources	208,443	0	0	0	208,443
Total revenue	<u>425,787</u>	<u>57,711</u>	<u>0</u>	<u>10,154</u>	<u>493,652</u>
<u>Expenditures</u>					
Current:					
Food services	451,157	0	0	0	451,157
Athletics	0	136,613	0	0	136,613
Debt Service:					
Principal	0	0	65,000	0	65,000
Interest and fees	0	0	17,799	0	17,799
Capital outlay	0	0	0	18,590	18,590
Total expenditures	<u>451,157</u>	<u>136,613</u>	<u>82,799</u>	<u>18,590</u>	<u>689,159</u>
Excess of revenue over (under) expenditures	(25,370)	(78,902)	(82,799)	(8,436)	(195,507)
<u>Other Financing Sources</u>					
Operating transfers in	<u>0</u>	<u>78,902</u>	<u>82,799</u>	<u>0</u>	<u>161,701</u>
Excess of revenue and other sources over (under) expenditures	(25,370)	0	0	(8,436)	(33,806)
Fund balances - beginning of year	<u>59,966</u>	<u>0</u>	<u>0</u>	<u>27,741</u>	<u>87,707</u>
Fund balances - end of year	<u>\$ 34,596</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,305</u>	<u>\$ 53,901</u>

INDIVIDUAL FUND SCHEDULES

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Local Sources</u>			
Current property taxes	\$ 4,091,862	\$ 4,093,079	\$ 3,862,489
Medicaid fee for service	51,675	47,933	36,218
Interest on investments	8,300	8,355	14,045
Other	99,605	98,729	106,597
Total revenue from local sources	<u>4,251,442</u>	<u>4,248,096</u>	<u>4,019,349</u>
<u>State Sources</u>			
State school aid	2,985,581	3,010,568	3,187,496
Driver education grant	12,376	7,131	7,159
Early childhood program	29,700	29,700	29,700
Vocational education	9,611	10,691	0
Total revenue from state sources	<u>3,037,268</u>	<u>3,058,090</u>	<u>3,224,355</u>
<u>Federal Sources</u>			
E.C.I.A., Title I	287,720	287,716	279,706
E.C.I.A., Title II	6,248	6,248	77,627
E.C.I.A., Title V	14,548	14,547	13,289
E.C.I.A., Title VI	74,763	74,763	21,000
Drug-free grant	7,407	7,407	1,657
ESD special education grant	0	0	9,950
Headstart	40,000	38,550	20,000
Strong families/safe children	13,552	13,552	19,448
Schools and roads	0	0	27,654
Comprehensive school reform	100,000	84,863	0
Payments in lieu of taxes	31,199	31,199	1,447
Total revenue from federal sources	<u>575,437</u>	<u>558,845</u>	<u>471,778</u>
<u>Interdistrict Sources</u>			
Special education and other programs	<u>197,750</u>	<u>207,153</u>	<u>165,459</u>
Total Revenue	<u>\$ 8,061,897</u>	<u>\$ 8,072,184</u>	<u>\$ 7,880,941</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

<u>Instruction</u>	2004		2003
	Budget	Actual	Actual
Elementary Schools:			
Professional salaries	\$ 1,153,044	\$ 1,183,168	\$ 1,089,708
Non-professional salaries	46,500	44,881	42,282
Insurance	259,200	231,145	207,116
FICA/retirement	242,379	246,510	222,118
Other benefits	32,236	33,753	10,440
Purchased services	116,432	78,620	11,608
Materials and supplies	30,065	16,079	43,154
Repairs and maintenance	26,000	19,337	66,567
Other	1,000	1,065	1,065
Total elementary schools	<u>1,906,856</u>	<u>1,854,558</u>	<u>1,694,058</u>
Middle/Junior High School:			
Professional salaries	505,234	502,890	587,861
Non-professional salaries	16,550	26,906	10,559
Insurance	115,430	125,099	109,251
FICA/retirement	104,038	104,363	116,284
Other benefits	2,500	2,097	5,746
Purchased services	12,000	7,599	7,811
Materials and supplies	6,800	4,563	8,857
Repairs and maintenance	2,000	0	5,227
Other	1,100	978	988
Total middle/junior high school	<u>765,652</u>	<u>774,495</u>	<u>852,584</u>
High School:			
Professional salaries	884,643	868,601	898,560
Non-professional salaries	43,700	59,936	75,998
Insurance	256,830	260,289	205,320
FICA/retirement	118,514	119,009	182,782
Other benefits	25,638	22,001	25,955
Purchased services	33,700	25,423	35,001
Materials and supplies	37,220	29,777	40,566
Repairs and maintenance	3,500	3,389	12,061
Other	10,336	9,542	5,030
Total high school	<u>1,414,081</u>	<u>1,397,967</u>	<u>1,481,273</u>
Preschool:			
Purchased services	<u>29,700</u>	<u>29,700</u>	<u>29,700</u>
Special Education:			
Professional salaries	299,007	294,927	286,621
Non-professional salaries	84,543	84,040	60,357

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Instruction (Continued)</u>			
Special Education: (Continued)			
Insurance	\$ 110,568	\$ 106,695	\$ 112,798
FICA/retirement	73,635	77,073	69,472
Other benefits	19,500	19,163	32,786
Materials and supplies	5,322	3,007	11,391
Total special education	<u>592,575</u>	<u>584,905</u>	<u>573,425</u>
Compensatory Education:			
Professional salaries	145,097	142,855	142,001
Non-professional salaries	8,703	32,579	15,638
Insurance	32,631	34,693	32,603
FICA/retirement	30,762	32,431	32,829
Purchased services	25,820	1,554	1,069
Materials and supplies	6,196	5,104	10,214
Total compensatory education	<u>249,209</u>	<u>249,216</u>	<u>234,354</u>
Vocational Education:			
Professional salaries	36,907	36,907	0
Non-professional salaries	21,825	20,351	0
Insurance	21,100	20,744	0
FICA/retirement	12,161	12,330	0
Purchased services	25,182	30,335	127,203
Materials and supplies	25,000	21,210	0
Total vocational education	<u>142,175</u>	<u>141,877</u>	<u>127,203</u>
Technology:			
Purchased services	6,248	6,248	7,703
Repairs and maintenance	0	0	10,941
Total technology	<u>6,248</u>	<u>6,248</u>	<u>18,644</u>
Total Instruction	<u>5,106,496</u>	<u>5,038,966</u>	<u>5,011,241</u>
<u>Supporting Services</u>			
Guidance Services:			
Professional salaries	84,613	84,016	83,025
Non-professional salaries	28,400	29,676	28,568
Insurance	17,875	15,151	14,611
FICA/retirement	14,775	15,654	14,621
Materials and supplies	1,000	639	797
Total guidance services	<u>146,663</u>	<u>145,136</u>	<u>141,622</u>
Health:			
Purchased services	<u>15,568</u>	<u>14,593</u>	<u>15,048</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Improvement of Instruction:			
Materials and supplies	\$ 109,578	\$ 97,732	\$ 82,670
Library:			
Professional salaries	0	1,649	56,813
Non-professional salaries	34,500	33,746	28,349
Insurance	24,750	24,384	4,991
FICA/retirement	7,150	7,272	17,540
Purchased services	1,250	0	1,090
Materials and supplies	3,000	1,597	4,358
Total library	70,650	68,648	113,141
Board of Education:			
Professional salaries	4,000	1,550	2,775
Purchased services	51,500	42,825	37,446
Total board of education	55,500	44,375	40,221
Executive Administration:			
Professional salaries	94,345	91,270	102,378
Insurance	13,750	13,371	11,109
FICA/retirement	20,000	19,058	19,832
Other benefits	8,952	7,161	12,681
Purchased services	32,500	26,256	24,117
Total executive administration	169,547	157,116	170,117
Office of the Principal:			
Professional salaries	206,786	206,767	198,877
Non-professional salaries	117,560	122,219	117,955
Insurance	77,430	69,798	80,249
FICA/retirement	67,890	69,049	66,622
Other benefits	10,850	7,906	9,150
Other	1,500	1,962	0
Total office of the principal	482,016	477,701	472,853
Fiscal Services:			
Non-professional salaries	95,550	91,979	138,414

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Fiscal Services: (Continued)			
Insurance	\$ 14,700	\$ 14,589	\$ 25,578
FICA/retirement	19,725	19,421	29,841
Other benefits	4,917	4,917	11,751
Purchased services	36,500	37,779	37,221
Materials and supplies	3,500	6,009	7,803
Repairs and maintenance	7,500	2,012	9,439
Other	25,000	27,945	28,300
Total fiscal services	<u>207,392</u>	<u>204,651</u>	<u>288,347</u>
Fixed Charges:			
Purchased services	<u>52,182</u>	<u>52,182</u>	<u>38,639</u>
Operating and Maintenance:			
Professional salaries	99,932	101,898	97,962
Non-professional salaries	133,050	131,846	149,946
Insurance	55,034	70,515	86,873
FICA/retirement	48,350	48,748	58,114
Other benefits	31,417	30,805	31,337
Purchased services	22,250	18,837	45,966
Materials and supplies	194,500	194,420	183,524
Repairs and maintenance	30,000	31,357	60,318
Other	1,000	2,818	1,957
Total operating and maintenance	<u>615,533</u>	<u>631,244</u>	<u>715,997</u>
Transportation:			
Professional salaries	89,382	89,877	79,357
Non-professional salaries	207,330	195,971	225,982
Insurance	128,500	119,439	128,480
FICA/retirement	61,328	57,610	61,811
Other benefits	250	791	784
Purchased services	5,400	9,186	18,607
Materials and supplies	59,650	70,231	66,009
Repairs and maintenance	0	9,200	415
Other	1,200	4,123	2,757
Total transportation	<u>553,040</u>	<u>556,428</u>	<u>584,202</u>
Central Services:			
Purchased services	<u>108,150</u>	<u>104,987</u>	<u>13,430</u>
Total Supporting Services	<u>2,585,819</u>	<u>2,554,793</u>	<u>2,676,287</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

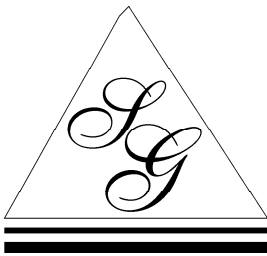
GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Capital Outlay</u>			
Supporting services:			
Transportation	\$ 55,217	\$ 0	\$ 0
<u>Other Financing Uses</u>			
Operating transfers out	162,000	161,701	212,871
Total Expenditures and Other Financing Uses	<u>\$ 7,909,532</u>	<u>\$ 7,755,460</u>	<u>\$ 7,900,399</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	Food Service Fund			Athletic Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenue</u>									
Local Sources:									
Lunch sales	\$ 208,000	\$ 195,043	\$ (12,957)	\$ 0	\$ 0	\$ 0	\$ 208,000	\$ 195,043	\$ (12,957)
Gate receipts	0	0	0	30,700	27,711	(2,989)	30,700	27,711	(2,989)
Interest on investments	1,200	835	(365)	0	0	0	1,200	835	(365)
Other	0	0	0	30,000	30,000	0	30,000	30,000	0
State sources	19,000	21,466	2,466	0	0	0	19,000	21,466	2,466
Federal sources	197,025	208,443	11,418	0	0	0	197,025	208,443	11,418
Total revenue	<u>425,225</u>	<u>425,787</u>	<u>562</u>	<u>60,700</u>	<u>57,711</u>	<u>(2,989)</u>	<u>485,925</u>	<u>483,498</u>	<u>(2,427)</u>
<u>Expenditures</u>									
Current:									
Food services	441,725	451,157	(9,432)	0	0	0	441,725	451,157	(9,432)
Athletics	0	0	0	152,275	136,613	15,662	152,275	136,613	15,662
Total expenditures	<u>441,725</u>	<u>451,157</u>	<u>(9,432)</u>	<u>152,275</u>	<u>136,613</u>	<u>15,662</u>	<u>594,000</u>	<u>587,770</u>	<u>6,230</u>
Excess of revenue over (under) expenditures	(16,500)	(25,370)	(8,870)	(91,575)	(78,902)	12,673	(108,075)	(104,272)	3,803
<u>Other Financing Sources</u>									
Operating transfers in	<u>10,000</u>	<u>0</u>	<u>(10,000)</u>	<u>91,575</u>	<u>78,902</u>	<u>(12,673)</u>	<u>101,575</u>	<u>78,902</u>	<u>(22,673)</u>
Excess of revenue and other sources over (under) expenditures	(6,500)	(25,370)	(18,870)	0	0	0	(6,500)	(25,370)	(18,870)
Fund balances - beginning of year	<u>59,966</u>	<u>59,966</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>59,966</u>	<u>59,966</u>	<u>0</u>
Fund balances - end of year	<u>\$ 53,466</u>	<u>\$ 34,596</u>	<u>\$ (18,870)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 53,466</u>	<u>\$ 34,596</u>	<u>\$ (18,870)</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

August 19, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Alcona Community Schools
Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School district's basic financial statements and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

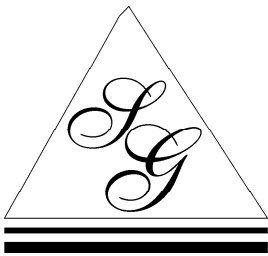
As part of obtaining reasonable assurance about whether Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of Alcona Community Schools, in a separate letter dated August 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alcona Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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August 19, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Alcona Community Schools
Alcona County, Michigan

Compliance

We have audited the compliance of Alcona Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Alcona Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Alcona Community Schools' management. Our responsibility is to express an opinion on Alcona Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alcona Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Alcona Community Schools' compliance with those requirements.

In our opinion, Alcona Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Alcona Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Alcona Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2004

There were no findings or questioned costs for the year ended June 30, 2003.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

1. The auditors' report expresses an unqualified opinion on the financial statements of Alcona Community Schools.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Alcona Community Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed regarding internal control over major federal award program compliance in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Alcona Community Schools expresses an unqualified opinion on all major federal programs.
6. The auditors' report disclosed no instances of findings relative to the major federal award programs of Alcona Community Schools.
7. The program tested as a major program was: Title I, CFDA #84.010.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Alcona Community Schools qualified as a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the financial statements audit for the year ended June 30, 2004.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ended June 30, 2004.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2004</u>
U.S. DEPARTMENT OF AGRICULTURE:								
Child Nutrition Cluster -								
Passed through the Michigan Department of Education:								
National School Lunch Program								
Breakfast 2002/2003	10.553	031970	\$ 2,232	\$ 0	\$ 0	\$ 2,232	\$ 2,232	\$ 0
Breakfast 2003/2004	10.553	041970	34,590	0	0	34,590	28,899	5,691
			<u>36,822</u>	<u>0</u>	<u>0</u>	<u>36,822</u>	<u>31,131</u>	<u>5,691</u>
Passed through the Michigan Department of Education:								
National School Lunch Program								
Section 4 2002/2003	10.555	031950	2,245	0	0	2,245	2,245	0
Section 4 2003/2004	10.555	041950	19,431	0	0	19,431	16,210	3,221
Section 11 2002/2003	10.555	031960	11,381	0	0	11,381	11,381	0
Section 11 2003/2004	10.555	041950	93,241	0	0	93,240	78,280	14,960
Fruit and Vegetable Pilot Program	10.555	030950	15,210	0	0	15,211	12,065	3,146
			<u>141,508</u>	<u>0</u>	<u>0</u>	<u>141,508</u>	<u>120,181</u>	<u>21,327</u>
Total Child Nutrition Cluster			<u>178,330</u>	<u>0</u>	<u>0</u>	<u>178,330</u>	<u>151,312</u>	<u>27,018</u>
Passed through the Michigan Department of Education:								
National School Lunch Program								
Commodities -								
Entitlement	10.550	01010	26,403	0	(8,019)	26,403	18,384	0
Bonus Commodities	10.550	01010	3,710	0	0	3,710	3,710	0
			<u>30,113</u>	<u>0</u>	<u>(8,019)</u>	<u>30,113</u>	<u>22,094</u>	<u>0</u>
Passed through Alcona County:								
Schools and Roads Grants to States	10.665		31,199	0	0	31,199	31,199	0
Total U.S. Department of Agriculture			<u>239,642</u>	<u>0</u>	<u>(8,019)</u>	<u>239,642</u>	<u>204,605</u>	<u>27,018</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Grantors Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004
U.S. DEPARTMENT OF EDUCATION:								
Passed through the Michigan Department of Education:								
Title I - Part A	84.010	021530 0203	\$ 36,361	\$ 36,361	\$ 14,961	\$ 0	\$ 14,961	\$ 0
ESEA Title I - Part A	84.010	031530 0203	266,845	237,345	131,345	0	131,345	0
ESEA Title I - Part A	84.010	031530 0304	29,500	0	0	29,500	29,500	0
ESEA Title I - Part A	84.010	041530 0304	258,216	0	0	258,216	258,216	0
			<u>590,922</u>	<u>273,706</u>	<u>146,306</u>	<u>287,716</u>	<u>434,022</u>	<u>0</u>
Passed through Alpena-Montmorency-Alcona Educational Service District:								
IDEA Flowthrough	84.027A	030450 0203	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>0</u>	<u>7,000</u>	<u>0</u>
Passed through the Michigan Department of Education:								
Safe and Drug Free Schools	84.186	042860 0304	<u>7,407</u>	<u>0</u>	<u>0</u>	<u>7,407</u>	<u>7,407</u>	<u>0</u>
Passed through the Michigan Department of Education:								
Title V LEA Allocation	84.298	030250 0203	13,289	13,289	6,489	0	6,489	0
Title V LEA Allocation	84.298	040250 0304	<u>14,547</u>	<u>0</u>	<u>0</u>	<u>14,547</u>	<u>14,547</u>	<u>0</u>
			<u>27,836</u>	<u>13,289</u>	<u>6,489</u>	<u>14,547</u>	<u>21,036</u>	<u>0</u>
Passed through the Michigan Department of Education:								
Ed Tech Formula Grants	84.318	034290 0203	7,699	7,699	1,899	0	1,899	0
Ed Tech Formula Grants	84.318	044290 0304	<u>6,248</u>	<u>0</u>	<u>0</u>	<u>6,248</u>	<u>6,248</u>	<u>0</u>
			<u>13,947</u>	<u>7,699</u>	<u>1,899</u>	<u>6,248</u>	<u>8,147</u>	<u>0</u>
Passed through the Michigan Department of Education:								
CSR Title I Grants	84.332	031870 0304	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>84,863</u>	<u>100,000</u>	<u>(15,137)</u>
Passed through the Michigan Department of Education:								
Title VI B - Rural and Low Income Schools	84.358	030660 0203	<u>21,000</u>	<u>21,000</u>	<u>7,500</u>	<u>0</u>	<u>7,500</u>	<u>0</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2004</u>
U.S. DEPARTMENT OF EDUCATION: (CONTINUED)								
Passed through the Michigan Department of Education:								
Title II A - Improving Teacher Quality Formula	84.367	030520 0203	\$ 72,521	\$ 69,928	\$ 42,021	\$ 2,593	\$ 44,614	\$ 0
Title II A - Improving Teacher Quality Formula	84.367	030520 0304	72,170	0	0	72,170	72,170	0
			<u>144,691</u>	<u>69,928</u>	<u>42,021</u>	<u>74,763</u>	<u>116,784</u>	<u>0</u>
Total U.S. Department of Education			<u>912,803</u>	<u>392,622</u>	<u>211,215</u>	<u>475,544</u>	<u>701,896</u>	<u>(15,137)</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:								
Passed through the Michigan Family Independence Agency:								
Promoting Safe and Stable Families	93.556	SFSC-03-01001	22,000	19,448	1,915	2,552	4,467	0
Promoting Safe and Stable Families	93.556	SFSC-03-01001-2-1	0	0	0	11,000	11,000	0
			<u>22,000</u>	<u>19,448</u>	<u>1,915</u>	<u>13,552</u>	<u>15,467</u>	<u>0</u>
Passed through Northeast Michigan Community Service Agency:								
Head Start	93.600		<u>40,000</u>	<u>0</u>	<u>0</u>	<u>38,550</u>	<u>38,550</u>	<u>0</u>
Total U.S. Department of Health and Human Services			<u>62,000</u>	<u>19,448</u>	<u>1,915</u>	<u>52,102</u>	<u>54,017</u>	<u>0</u>
Total Federal Awards			<u>\$ 1,214,445</u>	<u>\$ 412,070</u>	<u>\$ 205,111</u>	<u>\$ 767,288</u>	<u>\$ 960,518</u>	<u>\$ 11,881</u>

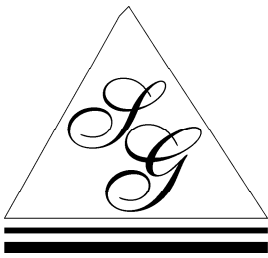
ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Notes

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities.
5. Expenditures include spoilage or pilferage.
6. The program tested as a major program was Title I, CFDA #84.010.
7. Reconciliation to the Financial Statements:

General Fund	\$ 558,845
Special Revenue Funds:	
Food Service Fund	<u>208,443</u>
Current Year Expenditures	<u>\$ 767,288</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Herman A Bertuleit, CPA

August 19, 2004

Board of Education
Alcona Community Schools
Alcona County, Michigan

Dear Board Members:

We have audited the financial statements of the Alcona Community Schools for the year ended June 30, 2004, and have issued our report thereon dated August 19, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 21, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Alcona Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Alcona Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Alcona Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Alcona Community Schools' compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Alcona Community Schools are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the School District changed accounting policies as a result of adopting Statements of Governmental Accounting Standards (GASB Statements) no. 33, 34, 36, 37 and 38 and GASB Interpretation No. 6, in the year ended June 30, 2004. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the governmental funds balance sheet. We noted no transactions entered into by Alcona Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Alcona Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by Alcona Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Alcona Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance as described in the fourth paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

We noted that the School District's Special Revenue Funds included expenditures in one function that exceeded appropriated amounts. We recommend that the Board of Education continue to amend the budgets for all funds periodically as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grath & Co., P.C.